BRIEFING

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European Parliament

Can the European Competitiveness Fund deliver?

Strengths, shortcomings and recommendations for an effective EU industrial policy

KEY FINDINGS

The Commission's proposal for a European Competitiveness Fund (ECF) marks a significant shift in the EU budget towards industrial policy. Together with the closely aligned Horizon Europe programme, the new competitiveness heading would account for around 30% of the proposed 2028–2034 Multiannual Financial Framework (MFF), representing a substantial reprioritisation compared to the current framework. While this scale remains insufficient to close Europe's large investment gaps, it could have a meaningful impact if deployed in a sufficiently focused, coordinated and leveraged manner.

The proposal addresses several long-standing weaknesses of EU industrial policy, notably fragmentation and complexity. The consolidation of instruments under a single rulebook, the standardisation of financial tools, the strengthening of InvestEU as a horizontal instrument, and the closer alignment with Horizon Europe's innovation pillars provide a credible basis for improving coherence and accelerating the transition from research to market deployment.

However, important shortcomings remain. The ECF's windows cover an exceptionally broad range of technologies and sectors without a clear prioritisation framework or definition of EU added value, risking dilution of resources and weaker market signals. Leverage potential is further constrained by a low minimum allocation to InvestEU guarantees and limited incentives for blending. Coordination with other key instruments—such as the Innovation Fund, the Connecting Europe Facility (CEF) and National and Regional Partnership Plans (NRPPs)—remains insufficiently specified, increasing the risk of overlaps and inefficiencies. Finally, the proposed governance framework grants the Commission considerable flexibility but lacks robust safeguards, strategic prioritisation mechanisms and accountability, potentially undermining effectiveness.

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Context and assessment criteria for the ECF

The European Commission has proposed a European Competitiveness Fund (ECF) as the EU's flagship industrial policy instrument to address today's competitive, technological, climate, and security challenges.

The proposal comes amid a global industrial-policy renaissance, at a time when free trade and the EU's export-led growth model are under increasing strain. At the same time, the speed and scale of ongoing technological, geopolitical, and environmental transformations require vast amounts of large-scale, long-term, and high-risk investment—well beyond what private investors have so far been willing or able to provide. The European Central Bank (ECB) estimates the EU's annual investment gap at around EUR 1.2 trillion in the security, digital, and green domains alone.

With a proposed seven-year budget of EUR 409 billion, the ECF's industrial-policy financing will not be able to fill these gaps alone. Unlike the United States and China—where industrial policy is largely financed and steered at the federal or central government level—EU-level spending amounts to only around 1–2% of EU Gross Domestic Product (GDP), while member-state budgets account for roughly 50% of GDP. The focus of EU industrial policy investment must therefore be on adding European value, crowding in additional public and private finance and fostering synergies across the EU's multilevel governance structure.

This briefing assesses whether the proposed ECF can deliver by evaluating it against the following eight criteria for successful industrial-policy design[1] and by offering targeted recommendations for improvement.

1. **Sufficient resources** to provide adequate risk-bearing capacity to make strategic projects bankable while effectively supporting a range of prioritised sectors.
2. **Clear strategic focus and prioritisation**, concentrating EU spending where it can have the highest impact.
3. **Powerful leverage** to mobilise additional public and private finance and expertise and multiply the effect of EU spending
4. **Coherence and simplicity of design**, reducing fragmentation and administrative complexity to lower costs and burdens for administration, applicants and beneficiaries alike
5. **Effective coordination** across different funding programmes, policies and governance levels to increase synergies and economies of scale
6. **High consistency and directionality** in investment decisions providing long-term predictability and strong investment signals to crowd in private sector investment
7. **Sufficient flexibility and responsiveness**, allowing for resources to be redirected swiftly in response to emergencies and rapid technological change
8. **Transparency and accountability** ensuring efficient use of public resources, limiting leakage, and encouraging evidence-based decision-making

[1] These criteria largely coincide with Mario Draghi's recommendations. See: Draghi, Mario (2024), *The Future of European Competitiveness*.

Resources and focus: substantial volume but insufficient prioritisation

With a combined budget of EUR 409 billion, the ECF (EUR 234.3 billion) and the closely aligned Horizon Europe programme (EUR 175 billion) would amount to around 2.5 times the EU-level investment under the programmes they replace. This new competitiveness heading would represent around 30% of proposed Multiannual Financial Framework (MFF) spending, compared to 17% in the current MFF. This marks a substantial rebalancing of priorities within an overall proposed budget of EUR 1.98 trillion for the 2028–2034 period (1.26% of EU GNI), which in real terms - and after accounting for repayments related to Recovery and Resilience Facility (RRF) borrowing - represents only a modest increase compared to the current framework.

This budget alone will not be able to fill Europe's massive investment gaps, but it could have a major positive impact on growth and competitiveness if it focuses spending on where it can have the largest impact and concentrate sufficient financial firepower to de-risk and crowd in additional private and public funding for EU industrial policy goals.

The Fund focuses on the scaling-up, manufacturing and deployment of strategic technologies and on reducing strategic dependencies[2] in four broad windows dedicated to the digital transition (EUR 54.8 bn), clean transition and industrial decarbonisation (EUR 26,2bn), health and bio-economy (EUR 22.6 bn), and defence and space (EUR 130.7bn). Moreover, it proposes a doubling of Union research and innovation funding and a tripling of the European Innovation Council (EIC) Fund responsible for commercialisation of research - a key EU weakness compared to the United States.[3] This broadly follows Draghi's suggestion to focus on areas with European public goods features where European added value through economies of scale and cross-border spillovers are greatest.

At the same time, the four windows still include too broad a range of technologies and industries to finance them all effectively. For example, financing needs in just two industries under the cleantech and decarbonisation window—wind and batteries—already come close to exhausting the indicative size of that window, with industry estimates pointing to EUR 11.6 billion for wind manufacturing and EUR 20–25 billion annually to build a competitive European battery ecosystem.[4] Moreover, some listed priorities such as sustainable tourism are not as clearly linked to the stated goals of the Fund as others like cleantech and AI.

The ECF proposal lacks a prioritisation framework that could guide spending where it can have the largest impact. In particular, it does not define EU added value or specify how EU-level funding would deliver greater impact than national spending. This creates a risk that resources are channelled into largely national projects with limited genuine cross-border effects. Moreover, the text lacks a definition of strategic dependencies that the ECF aims to reduce. This opens the door to supporting an overly broad set of dependencies, including those that are not critical or that could be addressed more effectively through less costly policy instruments, such as trade or competition policy.[5]

As a result, the ECF risks spreading out scarce resources too much, compromising its ability to provide sufficient support and de-risking power to any of its priorities and undermining effective market signalling.

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[2] European Commission (2025), *Proposal for a Regulation of the European Parliament and of the Council on establishing the European Competitiveness Fund (ECF)*, COM(2025)555 final, 16 July 2025.

[3] Draghi argues that the success of US public R&I is largely driven by its higher share of federal spending, in contrast to the EU, where R&I funding remains comparatively limited at EU level and fragmented across national budgets. See Draghi, Mario (2024), *The Future of European Competitiveness*.

[4] See: Wind Europe (2025), *European Commission proposes record EU budget to boost competitiveness – But wind needs a dedicated fund*, 21 August 2025; Recharge and Bepa (2025), *A Battery Deal for Europe*, p.37.

[5] Berg, A., & Meyers, Z. (2025), *Resilient growth: Aligning productivity and security*, Centre for European Reform.

Recommendations:

The Commission should introduce a framework for prioritising between technologies, industries and projects within the ECF, based on six criteria:

1. **EU added value**, specifying where EU-level intervention delivers greater impact than national action;
2. **Potential to develop an international competitive edge**;
3. **Indispensability for the EU's sovereignty and economic security**;
4. **Network effects** that simultaneously advance multiple strategic objectives, such as productivity, resilience, and decarbonisation;
5. **Appropriateness of policy instruments**, assessing whether a given industry would be more effectively supported through alternative tools, such as trade or competition policy;
6. **Appropriate governance level**, evaluating whether intervention is best undertaken at EU, national, regional, or local level, in line with the principle of subsidiarity.

While key priorities should be set through the political governance mechanism recommended on page 8 in the section on consistency, flexibility and accountability, the above criteria should guide prioritisation within those priorities.

Leverage: strong instruments but inadequate ambition

InvestEU

The Commission touts InvestEU as the key increasing leverage in the ECF. The programme has generally been considered a success, generating on average around EUR 5.6 in additional investment for each euro provided as a guarantee in the current MFF. This has been achieved through an open-architecture approach that relies on implementing partners – including the European Investment Bank (EIB) Group, National Promotional Banks and Institutions (NPBIs), and International Financial Institutions (IFIs) – to crowd in additional public and private capital as well as investment expertise.[6] The ECF proposal aims to further strengthen this model by removing the current cap limiting the participation of NPBIs and IFIs to 25% of the EU guarantee. This is significant, as European NPBIs and IFIs bring valuable financial and territorial expertise and together held around EUR 2.6 trillion in assets in 2023—approximately five times the balance sheet of the EIB.[7] Moreover, the proposal allows private financial institutions as implementing partners, which could in theory increase speed, crowd in additional resources and expertise and generate stronger market signals. However, given high administrative burdens and great risk aversity of private banks, it is unclear how private financial institutions would be willing to participate in InvestEU without additional incentives.

The proposal also increases the provisioning rate of the InvestEU guarantee from 40% to 50% while allowing for a further increase by delegated act.[8] This augments the de-risking intensity of EU money, which could help to draw funds to riskier strategic projects, for example in scaling breakthrough innovation — something the existing InvestEU programme has struggled to do.[9] Moreover, the Commission envisages the use of InvestEU as a horizontal instrument across the MFF. This has the potential to introduce more leverage across the EU budget and increasing market making and signalling effects of InvestEU financial instruments.

[6] European Commission (2025), *Interim Evaluation of the InvestEU Programme*, Final Report.
[7] European Investment Bank (2024), *Financial Report 2023*, Luxembourg.
[8] This could enable the guarantee to provide higher loss coverage, e.g. 50-70% for certain strategic high-risk portfolios to absorb failure risk of first-of-a-kind and industrial scale-up projects, for example in fields like deep tech, net-zero manufacturing or raw materials processing.
[9] See: European Commission (2025), *The road to the next multiannual financial framework*, Strasbourg; Draghi, Mario (2024), *The Future of European Competitiveness*, p. 289.

The downside however, is that the Commission proposes only a minimum of EUR 17 billion in guarantee cover and financial instruments.[10] This is significantly less than the current InvestEU guarantee of EUR 29.1 billion. The ECF proposal allows for this minimum amount to be increased by contributions from the work programmes of the different windows, but no minimum amount is given here. While the use of financial instruments under InvestEU is not limited, the maximum amount of the guarantee is set at EUR 70 billion, with the possibility of a 20% increase (or decrease). Even this number would ideally be further increased, given that the required budgeted EUR 35 billion for a EUR 70 billion guarantee cover would only be 15% of the EUR 234.3 billion Competitiveness Fund and only a tiny fraction of the MFF.

Blending

Blending, i.e. the combination of EU grants with financial instruments like loans or equity is one of the most effective ways to leverage EU spending by crowding in resources from additional financial institutions. Currently, NPBIs and IFIs blend financial instruments with EU grants through InvestEU and, on a case-by-case basis, in Connecting Europe Facility (CEF)-supported projects and as implementing partners at the CEF's Alternative Fuels Infrastructure Facility (AFIF). Blending is also fairly widespread in the EU's external and development funding. But there is no systematic approach across the MFF to incentivise blending. Blending operations are mentioned in the draft ECF regulation as one of the possible financing tools. But it does not include provisions stipulating or incentivising more blending, which is a missed opportunity to increase the leverage of the EU budget.

Scale-up facility

For the scale-up of breakthrough innovation, technologies and manufacturing, equity investment is often key. The success of the Advanced Research Projects Agency (ARPAs) in the US[11] and Government Guidance Funds (GGFs) in China[12] in scaling breakthrough innovation is largely based on direct equity investments. InvestEU and the EIB Group have, however, failed to provide sufficient equity financing, especially in higher-risk, later-stage scaleups. It is therefore important that the Commission follow through with its Scale-Up Europe Fund to be proposed in early 2026 and integrate this instrument as a scale-up facility in the ECF as suggested in the proposed ECF regulation.

Recommendations:

The minimum allocation for the InvestEU guarantee should be raised to at least EUR 29.1 billion, the amount of the current programme. The maximum amount for the InvestEU guarantee should be further increased or removed altogether.

To incentivise wider participation and more risk-taking among InvestEU implementing partners, incentives should be considered, such as capped, milestone-based fee premia to be paid from the programme budget or guarantee pricing margins.

Incentives to inject a blending component into EU grants should be set by making blending a selection criterion for receiving EU grants. This would incentivise a broader use of blended finance across the MFF, including in cohesion policy, which would further stretch scarce resources.

[10] This is equivalent to an initial amount in the budget as a contribution to the InvestEU Instrument of EUR 10 billion. Of that, EUR 7 billion is to provision the EU guarantee (with a provisioning rate of 50% providing a guarantee of EUR 14 billion) and EUR 3 bn is for financial instruments (which are provisioned at 100%). EUR 14 billion + EUR 3 billion yields the minimum amount of EUR 17 billion.

[11] Azoulay, P., Fuchs, E. R. H., Goldstein, A. P., and Kearney, M. (2018), *Funding breakthrough research: Promises and challenges of the "ARPA model"* (NBER Working Paper No. w24674). National Bureau of Economic Research.

[12] Xuan Li, Xuan and Ban, Cornel (2025), *Financing Technological Innovation in China: Neo-Developmental Financial Statecraft through Government Guidance Funds*, Boston: Boston University Global Development Policy Centre.

Coherence, simplicity and coordination: progress but sometimes lack of clarity

A key weakness of the EU's current investment and industrial policy architecture compared to the US and China is its fragmentation, complexity and limited coordination across programmes and governance levels, which often result in slow, rigid and diluted financing and limited private sector buy-in.[13]

The Commission proposal includes a host of useful measures that promise to reduce fragmentation, overlaps, administrative costs and improve coordination, accessibility and speed of funding compared to the current budget – crucial factors for more public and private sector buy-in and efficiency. These include the bundling of 12 existing instruments[14] into the ECF under a single rulebook, a standardised toolbox of financial instruments and unified advisory services in a Competitiveness Hub. Other proposals that promise similarly synergetic and simplifying effects across the entire MFF include the transformation of InvestEU into a horizontal financing instrument across all budgetary programmes, a single portal to consolidate information on funding opportunities, a Single Gateway to EU project promoters and a new, simplified and streamlined performance framework across programmes.

Moreover, allowing the ECF to top up IPCEIs would increase EU level steer in these member state-financed projects and facilitate greater alignment and synergies with EU industrial policy. This could ensure that a higher share of member state spending would be coordinated with EU spending.

The introduction of a Competitiveness Seal as a badge of excellence could simplify the promotion of strategic projects across the MFF, facilitating access to the ECF, National Regional Partnership Plans (NRPPs) or institutional investors, taking advantage of the assessment conducted prior to the attribution of the Seal. It could also facilitate the combination and cumulation of funding across programmes to create synergies and more coherence of industrial policy across the MFF.

Coordination with Horizon:

The introduction of a common rulebook and integrated work programmes for Horizon Europe's Pillars II and III and the ECF provide a logical structural basis for a better alignment in scaling innovation, while preserving the autonomy of upstream research activities. The proposal to steer Horizon's competitiveness-related collaborative research funding and selected EIC activities through ECF policy windows could strengthen strategic coherence and ensure that research and innovation investments are better aligned with downstream scale-up and deployment needs.

At the same time, the broadness of the common rulebook risks overlaps and inefficiencies in the programmes[15], which could undermine the goal of a seamless investment journey for scale-ups emerging from the EIC Accelerator into the ECF.

Coordination with Innovation Fund, CEF, NRPPs

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[13] The current MFF includes 52 programmes, resulting in duplications and overlaps as several programmes can cover the same policy areas. Programmes are managed by different parts of the EU machinery, shaped by layers of expert groups and committee structures. Moreover, there are various pots of money within programmes, for example 15 in Horizon Europe alone. For example see: European Parliamentary Research Service (2025), *EU BUDGET 2028-2034, Overview of the Commission's proposal*, Briefing.

[14] Including the Digital Europe Programme (DEP), Connecting Europe Facility – Digital (CEF), European Defence Fund (EDF), the Act in Support of Ammunition Production (ASAP), the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), the European Defence Industry Programme (EDIP), EU4Health, the European Space Programme, IRIS, InvestEU, Single Market Programme (SME Strand) and LIFE.

[15] European Court of Auditors (2026), *Concerning the proposal for a regulation of the European Parliament and of the Council establishing Horizon Europe, the Framework Programme for Research and Innovation, for the period 2028–2034*, Opinion 02/2026, Publications Office of the European Union.

Even less defined is the promised alignment between the ECF on the one hand and the Innovation Fund and Connecting Europe Facility on the other. For both, the Commission promises coherence when developing work programmes, while organisational structures and rulebooks remain separate. A clearer definition of focus areas and responsibilities would be useful to avoid overlaps and inefficiencies.

The Commission's planned NRPPs will only be effective in aligning Member States' and regional investment and reform priorities with EU and ECF industrial policy objectives if funding is tied to a robust, results-oriented conditionality framework. However, the proposed system of milestones and targets would amount to an even weaker performance and monitoring framework[16] than under the RRF, which has failed to deliver sufficient EU added value across many projects.[17]

Recommendations:

The Commission should treat standardising procedures and IT systems across the MFF in a Single Gateway as a key priority and provide a clear timeline for adoption.

To avoid overlaps and inefficiencies between the ECF and Horizon, there should be more specific rules for the two instruments, in particular with respect to the EIC Accelerator and the ECF's Scale-up facility. These should be linked by a clearly defined fast-track mechanism guaranteeing a seamless investment trajectory for innovative scaleups, to effectively address Europe's scaleup gap.

Building on Horizon Europe's existing quality screening, scale-ups and collaborative research projects could be granted streamlined and accelerated access to ECF financing, using simplified application procedures and the reuse of technical and due-diligence assessments already carried out under Horizon Europe. This would shorten time-to-finance, reduce administrative burdens, and strengthen the EU innovation pipeline.

To ensure complementarity, the Commission should provide a clearer definition of focus areas and responsibilities of the ECF compared to the Innovation Fund and CEF. For example, the Innovation Fund should continue to focus on alleviating technological risk, while the ECF decarbonisation and cleantech window should predominantly be deployed on technologies dealing with commercial risks.

A stricter conditionality system should be introduced for the NRPPs to better ensure industrial policy coherence across EU, national and regional levels. This could be done by setting up a framework of more clearly quantifiable targets and milestones that member states need to reach for money to be disbursed.

Consistency, flexibility and accountability: governance without clear guardrails

The Commission proposes a new steering mechanism to identify key priorities to be financed by the Union, including through the ECF. While high-level political priority-setting is essential for effective industrial policy, the proposed mechanism remains overly vague and unnecessarily complex. According to the Commission[18], it would culminate in a "steering report" drawing on a wide range of existing reports[19], as well as on a new report from the proposed Competitiveness Coordination Tool (CCT), for which no clear blueprint currently exists. This steering report is meant to inform the annual

[16] European Commission (2025), *Proposal for a Regulation of the European Parliament and of the Council establishing the European Social Fund as part of the National and Regional Partnership Plan*, COM(2025)558 final, 16 July 2025.

[17] European Court of Auditors (2025), *Support from the Recovery and Resilience Facility for the digital transition in EU member states – A missed opportunity for strategic focus in addressing digital needs*, *Special report 13/2025,* Publications Office of the European Union.

[18] European Commission, *A dynamic EU Budget for the priorities of the future: The Multiannual Financial Framework 2028–2034*, COM(2025) 570 final/2.

[19] Including from the European Semester, the State of the Energy Union, the National Energy and Climate Plans, the Environmental Implementation review, and the Single Market and Competitiveness Report.

budgetary procedure, which the Commission argues would allow the two arms of the budgetary authority to discuss and decide on the proposed priorities.

However, the annual budgetary procedure is designed as a quantitative exercise not a qualitative prioritisation process for industrial policy, and the Commission has so far not proposed to change this. While the existing procedure would allow the adjustment of resource allocation to the four ECF windows in agreement with the budgetary authority, it would leave the allocation within the extremely widely defined windows and the definition of more concrete priorities largely to the Commission. It could define those in yearly work programmes together with a new, Commission-appointed stakeholder board largely detached from the priorities defined in the steering mechanism.

This would run counter the goal of a coherent and accountable process of setting priorities for industrial policy and open the door to untransparent and inconsistent resource allocation. Even more so, since no framework has been put in place to prioritise among policy areas (see section on resources and focus, p.3).

The Commission's proposal to reduce the power of member states through comitology over the details of work programme design is generally a good idea in line with a more directional industrial policy based on promoting excellence rather than geographical spread. But member states should have a real impact on setting high-level priorities, which the current proposal does not permit. Moreover, while a high level of executive independence at the implementation stage can lead to more directional industrial policy, excluding independent experts from their role in project selection risks losing an important independent technocratic reality check at this stage.

Overall, while the previous budget lacked sufficient flexibility to respond to unforeseen events, the current proposal risks going too far in the opposite direction, with excessive flexibility coming at the expense of policy continuity—an essential condition for industrial policy to influence private investment decisions. This concern is compounded by the absence of clearly defined conditions and criteria governing the Commission's use of flexibility, which undermines predictability and transparency. For example, the ECF proposal allows the Commission to allocate funds to certain strategic projects—such as EU tech frontrunners and Single Market value chains—without issuing a call for proposals. While this may enable swift action, the lack of a clear assessment of the risks or market failures such flexibility is intended to address raises the risk of opaque and inefficient resource allocation.

Recommendations:

A coherent and effective mechanism for setting key macroeconomic priorities informing the industrial policy of the ECF and the Union as a whole should be established. Instead of relying on a multitude of different reports and processes, or setting up a CTT as another bureaucratic body, the Commission should consider a simpler mechanism (which could be named CCT or Competitiveness Coordination Mechanism) based on the already existing European Semester. It already oversees the National Recovery and Resilience Plans (NRRPs), coordinates Energy and Climate Plans and manages frameworks that support EU objectives at the national level. This mechanism could then produce a comprehensive report with macroeconomic priorities including headline spending goals for different sectors. The European Parliament and the Council would discuss and vote on it annually like they already do on the European Semester. After agreeing on a text, the Commission could use this report as the basis for its annual budget proposal and inform the negotiations with the two arms of the budgetary authority. This could ensure that the yearly budget reflects industrial policy priorities agreed by Parliament and Council, which would provide political guidance for the Commission designing the ECF work programmes. The Commission should be held accountable to follow these priorities, for example through the discharge procedure.

On the implementation state, the external experts should continue to have a say in project selection. Moreover, the Commission should put in place clear, publicly available performance indicators to increase transparency and improve ex-post accountability.

Minimum safeguards should be introduced, such as a clearly defined emergency common interest or industrial deployment needs, for the Commission to support projects without issuing a call of proposals. Moreover, the Commission should have to deliver an analysis of the needs and risks of such interventions to increase transparency.

Conclusion

The proposed ECF represents an important step towards a more strategic and investment-driven EU industrial policy. Its scale, standardisation of financial tools and administrative processes, and ambition to reduce fragmentation mark clear progress compared to the current framework. At the same time, the ECF as currently designed risks falling short of its objectives. Insufficient prioritisation, limited leverage ambition, unclear coordination mechanisms, and weak governance guardrails could dilute its impact and undermine effective market signalling.

With the legislative process now well underway, the European Parliament and the Council have a crucial responsibility—and opportunity—to strengthen the ECF. Targeted adjustments to the proposal are needed to sharpen its strategic focus, reinforce leverage, improve coordination across programmes and governance levels, and ensure a transparent and accountable governance framework with a meaningful role for the co-legislators and budgetary authority.

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